

Highlights

Global	<p>As economic data cues were few and far between yesterday, market players focused more on the speculation that the BOJ would tweak its policy to make it more sustainable which could affect its foreign demand for UST bonds. S&P500 closed higher on the back of financial shares and current earnings optimism (note Alphabet rose 3.7% in after-market trading), whereas the 10-year UST bonds sold off to push the yield up to 2.96% (highest in five weeks) on expectations that the FOMC will push on with a rate hike in September notwithstanding Trump's criticism. Elsewhere, China's more flexible policy response to external uncertainties saw the announcement of "more proactive" fiscal measures to support growth including additional tax cuts for companies with R&D expenditure etc.</p> <p>Asian markets are likely to trade with a skittish tone today. Today's economic data calendar comprises of the slew of manufacturing, services and composite PMIs from US and Europe, and US' Richmond Fed manufacturing index.</p>
US	<p>Existing home sales unexpectedly fell for the third straight month by 0.6% mom in June to 5.3m amid a shortage of affordable inventory and rising prices and borrowing costs. However, this is not expected to detract from a strong 4.2% qoq annualised print for 2Q18 GDP growth due on 27 July. Meanwhile, the Chicago Fed national activity index beat expectations to rise from a revised -0.45 in May to +0.43 in June.</p>
UK	<p>BOE's Broadbent suggested that "the unwind process is not in itself a hawkish signal" with regards to QE, and interest rates remain the main policy tool, but was ambiguous if he would vote for a rate hike at the 2 August meeting.</p>
SG	<p>Headline and MAS core inflation both accelerated to 0.6% yoy (0.1% mom nsa) and 1.7% yoy respectively in June, up from 0.4% yoy and 1.5% yoy in May. The pickup in June was largely driven by higher food and services inflation. For the full-year 2018, we're now looking for headline inflation to average 0.8% yoy.</p>
CN	<p>China injected CNY502 liquidity via 1-year MLF. The higher than expected liquidity injection reinforces market expectation that China's monetary policy has shifted and China is moving from de-leverage to stabilizing leverage. In addition, China's State Council also said the fiscal policy will be more proactive to support growth and structural reform.</p>
CMD	<p>Commodity prices continued to slip lower overnight, erasing the gains seen in the previous trading day. West Texas Intermediate Crude in particular, fell by 3.65% to \$67.9/bbl despite heightened verbal aggression between US and Iran, with the latter threatening that a "war with Iran is the mother of all wars" and consequently having US President Trump tweeting to Iran to "never, ever threaten the US again". The fall in both oil and gold prices overnight is a testament that investors are likely focused on oversupply risks rather than on geopolitical risks which are traditionally short-lived in nature. In Asia, palm oil futures continue to fade lower to close MYR2,169/MT overnight as rising supply concerns continue to mount.</p>

Major Market

- **Wall Street:** S&P500 rose 0.18% overnight – tech stocks rose whereas media and telecom shares ended lower. Alphabet's 2Q earnings beat analyst estimates. President Trump again tweeted on Amazon/com's alleged "huge antitrust" issues. The US Treasury yield curve bear-steepened for a second straight session in its sharpest steepening bias since February amid market speculation that the BOJ would tweak its policy to make it more sustainable, and in anticipation of this week's UST supply and a strong US' 2Q GDP growth reading later this week.
- **Singapore:** For the full-year 2018, we're now looking for headline inflation to average 0.8% yoy, which suggests an accelerated pick-up in 2H18 to average 1.3% yoy on the back of sustained higher crude oil prices, a smaller decline in accommodation costs compared to 2017, a further pick-up in education and recreation costs (due to a low base in 2017), as well as a tighter labour market which could support domestic demand. Private road transport inflation should decline this year given the expiry of the one-year road tax rebates and the upward revision in parking fees in August and December 2016. We also upgrade our 2018 core inflation forecast to 1.8% yoy in anticipation that core inflation could cross the 2% yoy handle as early as August. This means that a further monetary policy tightening at the October MPS cannot be ruled out yet, notwithstanding the deteriorating external trade environment.
- For inflation, the segments that saw pricing pressures were mainly education (2.9% yoy), healthcare (2.4% yoy), clothing & footwear (1.5% yoy), recreation & culture (1.4% yoy amid higher holiday expenses and airfares). Private road transport also rose 0.4% yoy in June, up from 0.1% in May, amid a smaller yoy decline in car prices and a faster pace of petrol pump price increases. Headline inflation rose by 0.3% yoy in the first half of this year, which is very subdued compared to the 0.7% yoy average for the same period last year. But this is about to change into 2H18. Of the top 10 items, only housing & utilities and communications saw disinflationary pressure in 1H18. Interestingly, while housing & utilities continued to decline by 1.8% yoy in June due to a more gradual fall in housing rentals, communications has reversed four straight months of declines to rise 0.2% yoy amid an increase in telecommunication service fees following the yoy decline in May. MAS-MTI holds the view that headline and core inflation will rise gradually to average in the upper half of the 0-1% and 1-2% forecast ranges in 2018. Notably, imported inflation is still likely to rise mildly amid higher global oil prices and global food commodity prices. While domestic inflation sources are tipped to rise faster in line with wage growth and a pickup in domestic demand, nevertheless, the pass through to consumer prices will remain moderate amid limited firms' pricing power.
- The STI closed down 0.12% at 3293.71 yesterday and may continue to slide today with support tipped at 3260 and resistance at 3300, amid non-committal cues from Wall Street overnight and a softer morning open from Kospi. With the UST yield curve steepening further yesterday, there may be little reprieve for the SGS bond market today. Apart from the auction of \$1.7b re-opening of the 7-year SGS bond maturing June 2026 on 27 July, LTA did a rare 40-year bond at 3.45% yesterday.
- **Hong Kong:** Inflation accelerated from May's 2.1% to 2.4% in June 2018. For the two most heavily-weighted items, food price index grew at a slightly faster pace by 3.7% yoy given the increased charges for eating outside while the housing inflation rebounded to 2.1% amid the higher housing rentals. Due to a low base effect, strong local consumption and robust tourist spending, the clothing inflation jumped significantly to 3.6% in June from May's 1.4% and reached the strongest since March 2012. Moving

forward, a tight labor market combined with sanguine economic outlook may bolster wage inflation. Higher housing rentals could also boost the inflation. Furthermore, additional tariffs charged by the US and China would increase price pressure in HK. However, concerns about global economic slowdown have weighed down commodity prices. This may offset some inflationary risks from new tariffs between the US and China. All in all, we expect overall CPI to hover above 2% in the rest of 2018.

- **Macau:** Visitor arrivals increased for the fifth consecutive month and were up by 9.4% yoy in June 2018. The number of overnight visitors (55.5% of total visitors) rose 7.2% yoy while that of same-day visitors (44.5% of total visitors) grew 12.4% yoy. This indicates that tourism activities have been holding up well on the back of sustained growth across Asia. The recent opening of new projects might have also encouraged re-visitation and attracted new visitors. As such, we see broad-based improvement in inbound tourism. Specifically, the number of tourists from Mainland China, Hong Kong, Taiwan and Japan edged higher by 13.5% yoy, 2% yoy, 7.8% yoy and 9.8% respectively. Due to high base effect, the number of visitors from South Korea dropped for the third straight month by 13.4% yoy. Nevertheless, the decline is unlikely to sustain. In the coming months, with a slew of new projects to open and the Hong Kong-Zhuhai-Macau Bridge to commence operation, we expect inbound tourism to continue growing on a broad basis. As such, both retail sales as well as the mass-market of the gaming sector are likely to be well supported.

Bond Market Updates

- **Market Commentary:** The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading around 1bps higher while the longer tenors traded 2-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 142bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 510bps. Overall, 10Y UST yields rose 6bps to close at 2.95% as investors expect the Fed to continue rate hikes despite criticism from President Donald Trump.
- **New Issues:** SMB Aviation Capital Finance DAC has priced a USD500mn 5-year bond (guaranteed by SMBC Aviation Capital Ltd) at CT5+133bps, tightening from its initial price guidance of CT5+155bps area. NongHyup Bank has priced a USD500mn 5-year bond at CT5+122.5bps, tightening from its initial price guidance of CT5+145bps area. Yuzhou Properties Co Ltd has priced a USD425mn re-tap of its YUZHOU 7.9%'21s (guaranteed by all of the issuer's restricted subsidiaries outside of the PRC) at 8.25%, in line with its initial guidance. Industrial & Commercial Bank of China Asia Ltd has priced a USD100mn 2-year bond at 3mL+70bps. Land Transport Authority of Singapore has priced a SGD1.5bn 40-year bond at 3.45%, in line with its initial price guidance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	94.632	0.17%	USD-SGD	1.3653	0.16%
USD-JPY	111.350	-0.05%	EUR-SGD	1.5963	-0.06%
EUR-USD	1.1692	-0.27%	JPY-SGD	1.2263	0.26%
AUD-USD	0.7381	-0.46%	GBP-SGD	1.7887	-0.06%
GBP-USD	1.3101	-0.27%	AUD-SGD	1.0077	-0.28%
USD-MYR	4.0620	--	NZD-SGD	0.9263	-0.18%
USD-CNY	6.7986	0.43%	CHF-SGD	1.3766	0.26%
USD-IDR	14482	-0.09%	SGD-MYR	2.9788	0.28%
USD-VND	23213	0.73%	SGD-CNY	4.9784	0.27%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3690	--	O/N	1.9135	--
2M	-0.3370	--	1M	2.0690	--
3M	-0.3210	--	2M	2.1794	--
6M	-0.2690	--	3M	2.3416	--
9M	-0.2160	--	6M	2.5243	--
12M	-17.9%	--	12M	280.2%	--

Fed Rate Hike Probability

Meeting	Prob Hike	2-2.25	2.25-2.5	2.5-2.75	2.75-3
08/01/2018	18.6%	18.6%	0.0%	0.0%	0.0%
09/26/2018	89.7%	73.5%	16.3%	0.0%	0.0%
11/08/2018	90.6%	68.3%	20.9%	1.3%	0.0%
12/19/2018	96.2%	33.1%	49.3%	13.1%	0.8%
01/30/2019	96.5%	30.7%	48.0%	16.0%	1.8%
03/20/2019	98.3%	16.6%	39.0%	32.6%	9.2%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	67.89	-3.65%	Coffee (per lb)	1.117	0.90%
Brent (per barrel)	73.06	-0.01%	Cotton (per lb)	0.8681	-0.31%
Heating Oil (per gallon)	2.1180	0.65%	Sugar (per lb)	0.1108	-0.36%
Gasoline (per gallon)	2.0914	1.08%	Orange Juice (per lb)	1.6785	-1.81%
Natural Gas (per MMBtu)	2.7210	-1.31%	Cocoa (per mt)	2,299	-0.99%
Base Metals	Futures	% chg	Grains	Futures	% chg
Copper (per mt)	6,055.0	-0.34%	Wheat (per bushel)	5.1375	-0.44%
Nickel (per mt)	13,327.0	-1.02%	Soybean (per bushel)	8.628	-0.23%
Aluminium (per mt)	2,057.8	1.67%	Corn (per bushel)	3.7125	0.61%
Precious Metals	Futures	% chg	Asian Commodities	Futures	% chg
Gold (per oz)	1,234.4	-0.48%	Crude Palm Oil (MYR/MT)	2,169.0	-1.14%
Silver (per oz)	15.425	-0.80%	Rubber (JPY/KG)	168.0	-1.64%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,044.29	-13.83
S&P	2,806.98	5.15
Nasdaq	7,841.87	21.67
Nikkei 225	22,396.99	-300.89
STI	3,293.71	-4.12
KLCI	1,757.96	3.29
JCI	5,915.80	43.01
Baltic Dry	1,689.00	--
VIX	12.62	-0.24

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.87 (+0.01)	2.63 (+0.04)
5Y	2.16 (+0.01)	2.82 (+0.05)
10Y	2.43 (+0.01)	2.95 (+0.06)
15Y	2.76 (+0.04)	--
20Y	2.80 (+0.04)	--
30Y	2.87 (+0.05)	3.09 (+0.07)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	35.30	-0.32
EURIBOR-OIS	3.95	0.30
TED	37.31	--

Economic Calendar

Date Time	Event		Survey	Actual	Prior	Revised
07/23/2018 08:00	SK Imports 20 Days YoY	Jul	--	21.60%	13.00%	--
07/23/2018 08:00	SK Exports 20 Days YoY	Jul	--	9.30%	-4.80%	--
07/23/2018 11:31	PH Budget Balance PHP	Jun	--	-54.3b	-32.9b	--
07/23/2018 12:37	MU Visitor Arrivals	Jun	--	2603t	2705t	--
07/23/2018 13:00	SI CPI YoY	Jun	0.60%	0.60%	0.40%	--
07/23/2018 13:00	SI CPI Core YoY	Jun	1.50%	1.70%	1.50%	--
07/23/2018 13:00	SI CPI NSA MoM	Jun	0.00%	0.10%	0.60%	--
07/23/2018 16:00	TA Industrial Production YoY	Jun	5.00%	0.36%	7.05%	7.61%
07/23/2018 16:00	TA Unemployment Rate	Jun	3.70%	3.68%	3.69%	--
07/23/2018 16:30	HK CPI Composite YoY	Jun	2.20%	2.40%	2.10%	--
07/23/2018 17:08	TA Money Supply M2 Daily Avg YoY	Jun	--	4.10%	3.73%	--
07/23/2018 20:30	CA Wholesale Trade Sales MoM	May	0.70%	1.20%	0.10%	-0.10%
07/23/2018 20:30	US Chicago Fed Nat Activity Index	Jun	0.25	0.43	-0.15	-0.45
07/23/2018 22:00	EC Consumer Confidence	Jul A	-0.7	-0.6	-0.5	-0.6
07/23/2018 22:00	US Existing Home Sales	Jun	5.44m	5.38m	5.43m	5.41m
07/23/2018 22:00	US Existing Home Sales MoM	Jun	0.20%	-0.60%	-0.40%	-0.70%
07/24/2018 08:30	JN Nikkei Japan PMI Mfg	Jul P	--	--	53	--
07/24/2018 13:00	JN Supermarket Sales YoY	Jun	--	--	-2.30%	--
07/24/2018 13:00	JN Leading Index CI	May F	--	--	106.9	--
07/24/2018 13:00	JN Coincident Index	May F	--	--	116.1	--
07/24/2018 13:30	JN Nationwide Dept Sales YoY	Jun	--	--	-2.00%	--
07/24/2018 13:30	JN Tokyo Dept Store Sales YoY	Jun	--	--	1.30%	--
07/24/2018 14:45	FR Manufacturing Confidence	Jul	110	--	110	--
07/24/2018 14:45	FR Production Outlook Indicator	Jul	13	--	14	--
07/24/2018 14:45	FR Own-Company Production Outlook	Jul	25	--	22	--
07/24/2018 15:00	FR Markit France Manufacturing PMI	Jul P	52.5	--	52.5	--
07/24/2018 15:00	FR Markit France Services PMI	Jul P	55.7	--	55.9	--
07/24/2018 15:00	FR Markit France Composite PMI	Jul P	54.9	--	55	--
07/24/2018 15:30	GE Markit/BME DE Manufacturing PMI	Jul P	55.5	--	55.9	--
07/24/2018 15:30	GE Markit Germany Services PMI	Jul P	54.5	--	54.5	--
07/24/2018 15:30	GE Markit/BME Germany Composite PMI	Jul P	54.8	--	54.8	--
07/24/2018 16:00	EC Markit Eurozone Manufacturing PMI	Jul P	54.7	--	54.9	--
07/24/2018 16:00	EC Markit Eurozone Services PMI	Jul P	55.1	--	55.2	--
07/24/2018 16:00	EC Markit Eurozone Composite PMI	Jul P	54.8	--	54.9	--
07/24/2018 21:00	US FHFA House Price Index MoM	May	0.30%	--	0.10%	--
07/24/2018 21:45	US Markit US Manufacturing PMI	Jul P	55.1	--	55.4	--
07/24/2018 21:45	US Markit US Services PMI	Jul P	56.3	--	56.5	--
07/24/2018 21:45	US Markit US Composite PMI	Jul P	--	--	56.2	--
07/24/2018 22:00	US Richmond Fed Manufact. Index	Jul	18	--	20	--

Source: Bloomberg

OCBC Treasury Research	
<p>Macro Research</p> <p>Selena Ling LingSSSelena@ocbc.com</p> <p>Emmanuel Ng NgCYEmmanuel@ocbc.com</p> <p>Tommy Xie Dongming XieD@ocbc.com</p> <p>Barnabas Gan BarnabasGan@ocbc.com</p> <p>Terence Wu TerenceWu@ocbc.com</p> <p>Alan Lau AlanLau@ocbc.com</p>	<p>Credit Research</p> <p>Andrew Wong WongVKAM@ocbc.com</p> <p>Ezien Hoo EzienHoo@ocbc.com</p> <p>Wong Hong Wei WongHongWei@ocbc.com</p>

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